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EUROSISTEMA
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ECONOMIC UPDATE 4/2017

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ECONOMIC UPDATE 4/2017

Summary¹

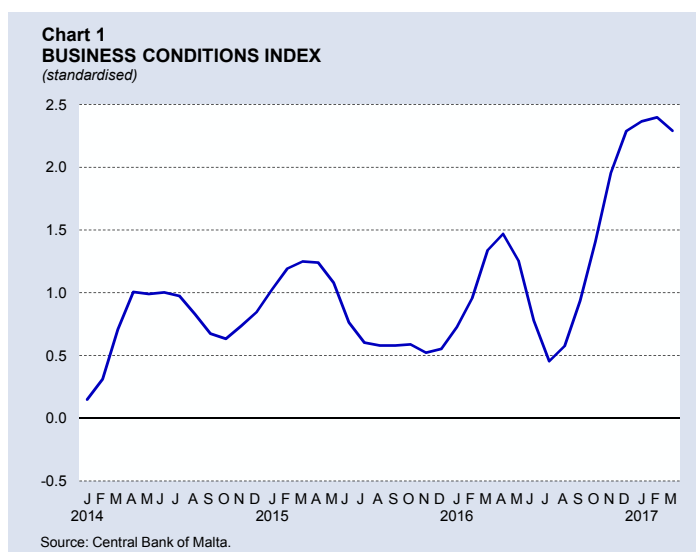
The Bank's Business Conditions Index (BCI) continued to signal above normal activity levels in March, reflecting favourable conditions in the services industry. Economic sentiment decreased marginally. In February, the annual rate of change of retail sales turned negative. However, industrial production and tourism activity, expanded further. Labour market conditions remained buoyant, as employment grew and the number of registered unemployed fell further. Price pressures moderated slightly in February, with the annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) falling to 1.2%. Maltese residents' deposits rose by 11.7% when compared with the same month of 2016, while credit to residents increased by 2.4%. As regards fiscal developments, the cash-based Consolidated Fund showed a surplus in 2016 and in the first two months of 2017.

Central Bank's Business Conditions Index (BCI)

The Central Bank's BCI continues to show an above average level of economic activity (see Chart 1).² In March, the BCI eased slightly to 2.3, from a revised value of 2.4 a month earlier. It remains substantially above the 1.3 recorded in March 2016. The index retained support from an indicator linked with the services industry.

Business and consumer confidence indicators

In March 2017, the Economic Sentiment Indicator (ESI) stood at 114, marginally lower than 115 in the preceding month (see Table 1), and above its long-term average of 100.^{3,4} Lower sentiment was registered among firms operating in the retail and services sector, and



¹ The cut-off date for information in this note is 12 April 2017.

² The BCI is a synthetic indicator, which includes variables from each subsequent section of the Economic Update, namely the term-structure of interest rates, industrial production, an indicator for the services industry, the economic sentiment indicator, tax revenues, unemployment, private sector credit and gross domestic product. By construction, it has an average value of zero, implying average business conditions, over its estimation period since 2000. For further details on the methodology behind the BCI, see Ellul, R. (2016), "A real-time measure of business conditions in Malta," *Central Bank of Malta Working Paper WP/04/2016*.

³ The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

⁴ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. Since the retail confidence indicator began to be published as from May 2011, its long-term average is calculated since then. The long-term average of the ESI is computed from November 2002.

Table 1
BUSINESS AND CONSUMER SURVEYS

Balances; percentage points; seasonally adjusted

	2015	2016	2017		
			Jan.	Feb.	Mar.
Economic Sentiment Indicator	111	109	111	115	114
Retail trade confidence indicator	16	7	1	16	8
Business activity, past 3 months	33	17	-3	17	18
Stocks of finished goods	9	9	12	-1	12
Business activity, next 3 months	25	14	17	29	17
Services confidence indicator	26	26	24	33	25
Business situation development over the past 3 months	25	22	28	22	25
Evolution of the demand over the past 3 months	28	29	28	40	32
Expectation of the demand over the next 3 months	25	27	16	37	20
Consumer confidence indicator	0	2	0	4	3
Financial situation over next 12 months	4	5	3	7	3
General economic situation over next 12 months	11	13	13	15	17
Unemployment expectations over next 12 months	-10	-13	-12	-17	-12
Savings over next 12 months	-25	-24	-28	-23	-19
Construction confidence indicator	11	-8	-8	-13	9
Evolution of your current overall order books	1	-22	-24	-34	-1
Employment expectations over the next 3 months	22	6	8	10	18
Industrial confidence indicator	0	0	7	7	9
Assessment of order-book levels	-23	-18	-9	-7	-5
Assessment of stocks of finished products	-1	2	4	-1	1
Production expectations for the months ahead	24	19	33	26	32

Source: European Commission.

to a lesser extent, among consumers. On the other hand, confidence rose in industry and turned positive in construction.

Sentiment in the retail sector fell to 8, after rising to 16 in February,⁵ but still remained above its long-term average of 1. Lower sentiment in March was driven by two subcomponents. On balance, respondents reported above normal stocks of finished goods after reporting below normal stocks in February.⁶ Also, expected business activity fell compared to the preceding month. Additional survey data for this sector indicate that, compared to February, a smaller share of respondents expected their labour complement to rise in the subsequent three months. On balance, firms believed that their orders and prices will fall in the following three months.

In March, the confidence indicator for firms operating in the services sector signalled less optimism, falling to 25, from 33 in the preceding month.⁷ This still compares favourably with a long-term average of 21. Firms were less upbeat about demand over the preceding three months and its expected evolution over the three months ahead. On the other hand, firms were marginally more optimistic about their business situation over the preceding three months. Additional survey data indicate that, overall, both firms' assessment of past and expected labour developments,

⁵ The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

⁶ Above normal stocks of finished goods have a negative effect on the overall industrial confidence indicator.

⁷ The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

deteriorated when compared with February. Price expectations however, remained unchanged during the month under review.

Consumer confidence also declined marginally, from 4 in February to 3 in March.⁸ Consumer confidence thus still remained well above its long-term average of -20. The fall in March was driven by consumers' assessment of their financial situation and their unemployment expectations.⁹ Additional survey information indicates that in the same month consumers' inflation expectations strengthened compared with the preceding month. At the same time, a smaller share of respondents expected to make fewer major purchases over the subsequent 12 months.

In contrast, confidence in the construction sector turned positive in March and rose to 9, from -13 a month earlier.¹⁰ Thus, sentiment remained above its long-term average of -22. The increase in confidence reflected a less negative assessment of order book levels as well as higher employment expectations for the three months ahead. Other survey data for the month indicate that, compared with February, a larger share of respondents reported an increase in building activity over the preceding three months. Also, a larger share of firms expects their selling prices over the following three months to rise.

Similarly, the industrial confidence indicator increased marginally from 7 in February to 9 in March, thereby remaining well above its long-term average of -4.¹¹ Improved production expectations and assessment of order books offset above normal stocks of finished goods. Supplementary survey data suggest that, on balance, a larger share of respondents expected to increase their employment in the subsequent months. At the same time, on balance, more respondents expect to lower their selling prices in the following three months.

Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, went up by an annual 4.2% in February 2017. This followed a 5.5% year-on-year increase in January (see Table 2).¹² In February, output increased substantially among manufacturers of beverages, rubber and plastics as well as computer, electronic and optical products. Production also increased among firms involved in the printing and reproduction of recorded media as well as within the energy and food production sectors. These increases offset lower production in the pharmaceutical sector.

The annual rate of change of retail trade, which is a short-term indicator of final domestic demand, declined in February. Calendar day-adjusted data show that the volume of retail trade fell by 0.9% after rising by 2.5% in January.

The number of inbound tourists rose by 28.3% in February, when compared with the same month a year earlier. Nights stayed grew further, rising by 15.7% on a year earlier, largely driven by an

⁸ The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

⁹ An increase in unemployment expectations has a negative effect on the overall indicator.

¹⁰ The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

¹¹ The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

¹² The annual growth rates of the industrial production index are based on working-day adjusted data.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2015 2016		2016												2017	
			Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	
Industrial production	6.1	-3.2	-2.1	-3.6	-2.2	-3.6	-6.1	-4.8	-2.3	-1.5	-6.1	-0.4	2.9	5.5	4.2	
Retail trade	7.1	1.9	12.3	2.6	-1.2	0.5	0.1	-1.5	4.3	3.0	-0.4	2.5	-1.9	2.5	-0.9	
Number of tourist arrivals	5.5	10.2	9.2	14.2	8.4	9.8	7.2	9.1	2.8	7.5	9.4	24.2	30.9	22.7	28.3	
Number of nights stayed	4.7	5.7	10.4	11.6	7.4	6.6	8.6	3.5	0.7	1.6	3.9	14.2	10.3	12.3	15.7	
Private accommodation	14.9	13.5	15.8	18.8	23.8	20.8	26.2	13.3	7.9	6.2	6.1	25.8	9.8	26.9	24.8	
Collective accommodation	-0.7	1.0	8.2	8.9	-0.1	0.3	-0.4	-3.5	-5.4	-1.7	2.6	8.5	10.8	3.5	11.8	
Tourist expenditure	7.2	4.3	9.6	10.9	3.3	5.0	4.0	4.3	-1.9	1.3	4.1	12.9	16.0	8.6	20.8	
Package expenditure	4.8	-6.5	0.1	4.9	-7.4	-6.5	-9.9	-1.9	-13.2	-6.0	-9.6	-3.1	3.1	-12.8	3.1	
Non-package expenditure	13.1	11.3	19.6	16.8	9.2	15.0	17.7	5.7	4.0	8.6	13.7	21.8	18.1	14.8	29.5	
Other	5.2	8.2	10.6	12.8	8.4	8.7	6.6	8.3	2.9	1.5	9.6	18.7	22.9	18.0	28.0	

Sources: National Statistics Office; Eurostat.

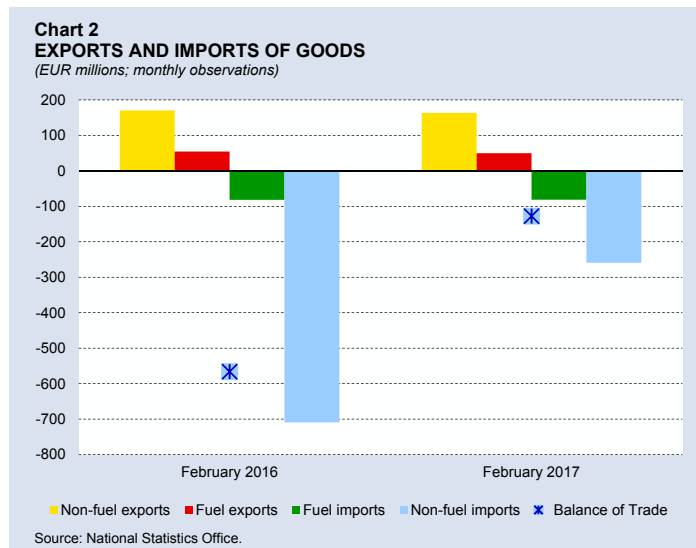
increase in collective accommodation, although nights stayed in private accommodation also rose strongly. Meanwhile, tourist expenditure increased significantly, up by 20.8% in annual terms. Higher spending was recorded across all expenditure components.

In January, the overall occupancy rate in collective accommodation establishments stood at 40.9%, 2.4 percentage points higher than in the same month of 2016. The largest improvement was recorded across three-star hotels.

During the final quarter of 2016, there were 85 cruise liner calls, 3 less compared with a year earlier. Nevertheless, foreign passengers increased marginally to 175,819, up by 0.3% on a year earlier. Over 2016 as a whole, the number of foreign cruise passengers rose by 4% to 615,918.

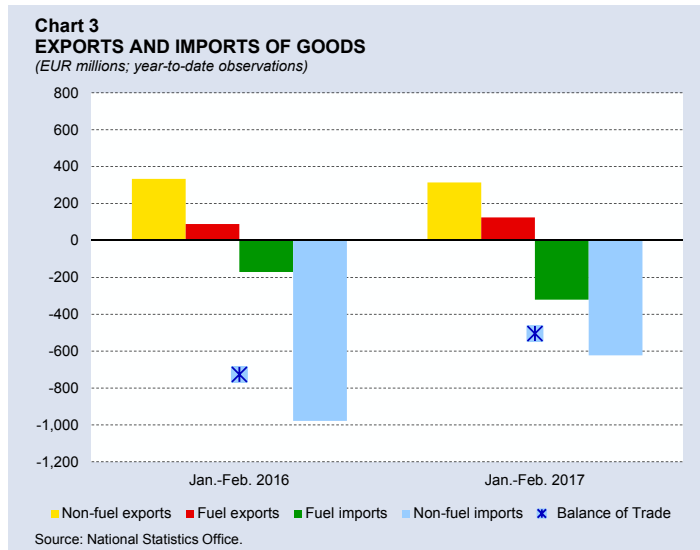
Preliminary Customs data show that the trade deficit stood at €127.7 million in February. This implies a decline of €438.4 million when compared with the same month of 2016. This narrowing arose as imports fell significantly more than exports, Imports decreased by €450.3 million while exports fell by €11.9 million (see Chart 2). Lower imports were mainly due to a decline in imports of ships and boats. Imports of consumer goods, industrial supplies and fuel also decreased in annual terms.

As regards exports, both fuel and non-fuel exports declined. The drop in non-fuel exports was mainly due to lower exports of aircraft. As a result, the deficit from trade excluding fuels



narrowed by €442.8 million, to €96.0 million in February.

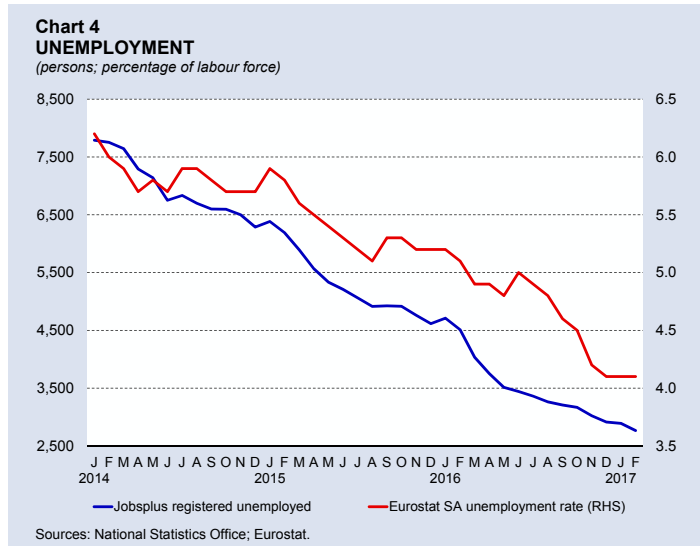
During the first two months of 2017 imports declined while exports increased. As a result, the visible trade gap narrowed by €222.2 million when compared with the same period of 2016, and stood at €504.5 million (see Chart 3). This gap was to a large extent driven by developments in two commodity groups, namely fuels, and transactions involving aircraft.



Labour market

Jobsplus data show a further fall in the number of people on the unemployment register in February. The registered unemployed fell to 2,766 from 4,511 in the corresponding month of 2016 and from 2,889 in January (see Chart 4).

Meanwhile, Eurostat's estimate of the seasonally-adjusted unemployment rate stood at 4.1% in February, unchanged from the preceding month. The unemployment rate remained low from a historical perspective and well below the 5.1% recorded a year earlier.



BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in October the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.0% on a year earlier, reaching 183,170 (see Chart 5). This followed 4.6% growth in September.

Growth in employment in October mirrored developments observed in recent months, as it continued to be mainly driven by the private sector, while the public sector registered a marginal annual increase (see Table 3).

The number of full-timers in the private sector went up by 8,155, or 6.3%, on the same month of the previous year. Employment growth in the private sector continued to be driven by market services, with the number of full-time job holders increasing by 7,809, or 8.0% in annual terms. This increase was distributed among all major sectors within this category.

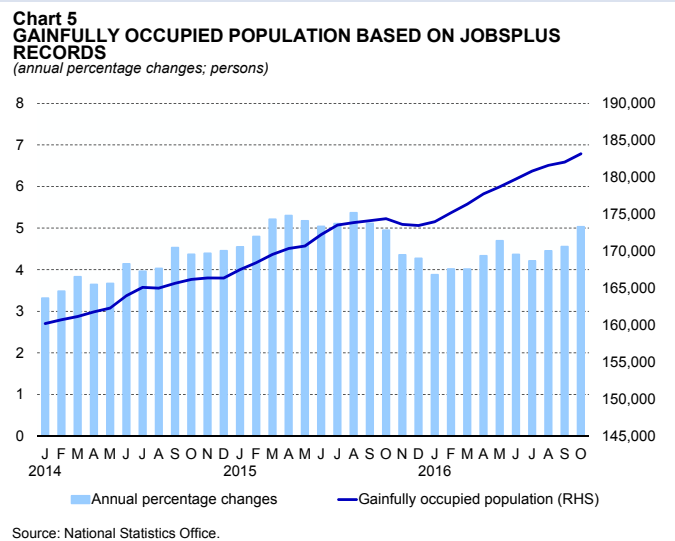


Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

	2015	2016	Annual change	
	October	October	Number of persons	%
Labour supply	179,313	186,336	7,023	3.9
Gainfully occupied ⁽¹⁾	174,397	183,170	8,773	5.0
Registered unemployed	4,916	3,166	-1,750	-35.6
Unemployment rate (%)	2.7	1.7		
Private sector	129,846	138,001	8,155	6.3
Direct production⁽²⁾	32,530	32,876	346	1.1
Market services	97,316	105,125	7,809	8.0
Wholesale and retail trade	24,661	25,154	493	2.0
Transportation and storage	7,714	8,089	375	4.9
Accommodation and food service activities	10,859	11,582	723	6.7
Information and communication	5,915	6,459	544	9.2
Financial and insurance activities	7,928	8,329	401	5.1
Real estate, professional and administrative activities ⁽³⁾	22,374	25,028	2,654	11.9
Arts, entertainment and recreation	5,173	6,873	1,700	32.9
Education	4,991	5,087	96	1.9
Other	7,701	8,524	823	10.7
Public sector	44,551	45,169	618	1.4

⁽¹⁾ This category measures full-time employment.

⁽²⁾ This includes employment in agriculture, fishing, mining and quarrying, manufacturing, electricity, gas and water supply, and construction.

⁽³⁾ This includes employment in real estate activities, professional, scientific and technical activities, and administrative and support service activities.

Source: National Statistics Office.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employment in this sector went up by 2,654 in the year to October 2016, and accounted for over one-third of the overall rise in private market services employment. The number of persons employed in the arts, entertainment and recreation sector also increased significantly in annual terms, going up by 1,700.

Meanwhile, employment in direct production within the private sector grew by 346, or 1.1%, on a year earlier. Increases were recorded across all sectors, though the largest increase was registered in the construction sector.

Public sector jobs rose by 618, or 1.4%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education where employment increased by 488 and 346 jobs respectively. These were partly offset by a fall in employment among other sectors, including the transportation and storage sector, as well as in the agriculture, forestry and fishing sector.

Prices, costs and competitiveness

The annual rate of HICP edged down to 1.2% in February, after having picked-up to 1.4% in the previous month (see Chart 6).

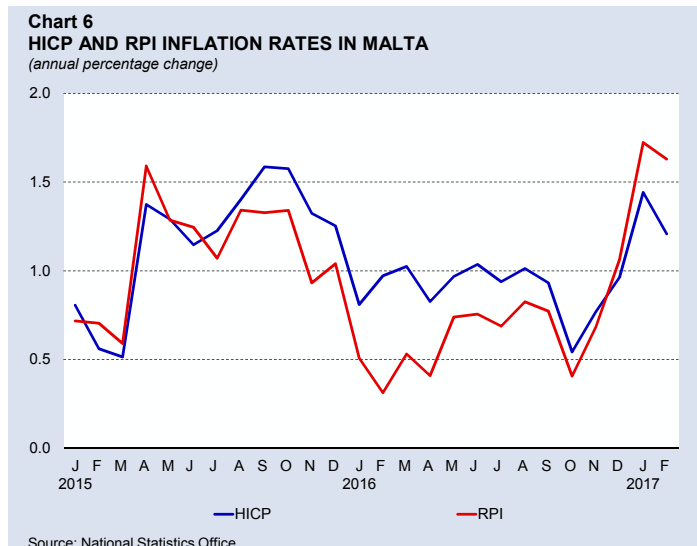
Developments in the food and non-energy industrial goods (NEIG) components have been behind the movements in HICP inflation during February 2017. A slight easing in food inflation, particularly unprocessed food, was registered in February. Nonetheless, the contribution of

food prices to overall inflation remained strong, on the back of dry weather conditions in 2016. Meanwhile, inflation in the NEIG category eased, following a temporary increase in January. This mainly occurred in semi-durable items normally affected by winter sales, such as clothing and major household appliances.

On the other hand, services inflation accelerated when compared with the previous month, though it remains low from a historical perspective. Energy inflation remained unchanged during the month under review.

Similarly, annual inflation based on the RPI moderated to 1.6% in February from 1.7% in January, mainly driven by weaker price pressures in the clothing and footwear component.¹³

¹³ The Retail Price Index (RPI) differs from the HICP in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta.



The Industrial Producer Price Index (PPI) continues to signal weak cost pressures. Annual PPI inflation remained negative, though it rose to -0.4%, from -1.0% in the previous month.¹⁴ The recent pick-up was driven by factory-gate prices for intermediate goods. This component, which is the largest component of the index, contracted at a slower pace in February, reflecting developments in the computer, electronic and optical products category. Meanwhile, annual contributions from the other components of the index were similar to January. Producer prices have been on a declining trend for a number of years.

With regard to international price competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) dropped by 0.7% in February when compared with a year earlier.¹⁵ This was the first drop since 2015, suggesting an improvement in Malta's international competitiveness and partly reflects the weak euro exchange rate against the US dollar. Likewise, the real HCI, which also takes into account changes in relative prices, dropped by 2.4%. This signifies that the favourable impact of exchange rate movements on Malta's international competitiveness was accentuated by relative price developments.

Public finance

Data for 2016 show a surplus of €8.9 million in the Consolidated Fund (see Table 4). This marks a significant improvement from a deficit of €235.8 million in 2015. This amelioration was off the

Table 4
CONSOLIDATED FUND BALANCE (JAN.-DEC.)

EUR millions

	2015	2016	Change	
	Jan.-Dec.	Jan.-Dec.	Amount	%
Revenue	3,390.0	3,540.4	150.4	4.4
Direct tax	1,679.4	1,866.1	186.7	11.1
Income tax	1,184.6	1,328.3	143.6	12.1
Social security contributions ⁽¹⁾	494.7	537.8	43.1	8.7
Indirect tax	1,271.3	1,313.3	42.0	3.3
Value Added Tax	700.0	724.8	24.8	3.5
Customs and excise duties	290.4	277.5	-12.9	-4.4
Licences, taxes and fines	280.9	311.0	30.1	10.7
Non-tax⁽²⁾	439.3	361.0	-78.3	-17.8
Expenditure	3,625.8	3,531.5	-94.3	-2.6
Recurrent	3,044.3	3,221.2	176.9	5.8
Personal emoluments	742.4	782.1	39.6	5.3
Operational and maintenance	160.3	176.0	15.7	9.8
Programmes and initiatives ⁽¹⁾	1,614.0	1,684.4	70.3	4.4
Contributions to entities	295.2	355.3	60.1	20.3
Interest payments	232.3	223.5	-8.9	-3.8
Capital	581.5	310.3	-271.2	-46.6
Primary balance⁽³⁾	-3.5	232.3	235.8	-
Consolidated Fund balance	-235.8	8.9	244.7	-

⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.

⁽²⁾ Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

⁽³⁾ Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

¹⁴ The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

¹⁵ The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international price competitiveness.

back of higher revenue and lower expenditure. Government revenue increased by €150.4 million over the whole year, or 4.4%. By far the largest contributor towards this increase was income tax revenue, which grew by €186.7 million. Social security contributions as well as indirect taxes both contributed to the improvement while, non-tax revenue declined due to lower utilization of the EU structural funds. Expenditure fell by €94.3 million, or 2.6%, driven by lower capital expenditure. As a result, the primary balance also improved drastically, as a deficit of €3.5 million in 2015 turned to a surplus of €232.8 million.

During the second month of 2017, the Consolidated Fund balance registered a surplus of €46.5 million, €24.9 million more than a year earlier (see Table 5). Higher revenue was the main factor behind this improvement, as expenditure decreased marginally. As a result, the primary balance surplus increased from €42.7 million in February 2016, to €65.8 million.

Revenue rose by €22.9 million, equivalent to 7.3%, in the period under consideration. The largest increase came from non-tax revenue, as grants received from the EU grew. Indirect taxes also grew in February, while direct taxes declined as income tax inflows fell for the first time in twelve months.

Government expenditure declined by €2.0 million, or 0.7%, when compared with a year earlier. This was due to higher capital expenditure being offset by a fall in recurrent expenditure across

Table 5
CONSOLIDATED FUND BALANCE (JAN.-FEB.)

EUR millions

	2016	2017	2016	2017	Change	
	Jan.-Feb.	Jan.-Feb.	Feb.	Feb.	Amount	%
Revenue	524.0	598.6	314.6	337.5	22.9	7.3
Direct tax	242.5	241.9	124.7	117.8	-6.8	-5.5
Income tax	155.5	150.3	81.9	70.4	-11.5	-14.1
Social security contributions ⁽¹⁾	87.0	91.6	42.8	47.5	4.7	11.0
Indirect tax	232.5	257.4	158.3	167.3	9.0	5.7
Value Added Tax	136.9	144.4	108.8	111.0	2.1	2.0
Customs and excise duties	41.8	50.2	20.1	22.4	2.3	11.3
Licences, taxes and fines	53.8	62.8	29.3	34.0	4.6	15.7
Non-tax⁽²⁾	49.0	99.4	31.6	52.3	20.7	65.5
Expenditure	551.2	568.0	293.0	291.0	-2.0	-0.7
Recurrent	518.9	535.2	283.7	268.2	-15.5	-5.5
Personal emoluments	113.4	117.5	56.7	59.1	2.4	4.3
Operational and maintenance	35.3	33.6	18.3	14.2	-4.0	-22.1
Programmes and initiatives ⁽¹⁾	269.4	283.3	140.8	137.7	-3.0	-2.2
Contributions to entities	64.6	63.9	46.9	37.9	-9.1	-19.3
Interest payments	36.2	36.8	21.1	19.3	-1.8	-8.5
Capital	32.3	32.8	9.3	22.8	13.5	145.7
Primary balance⁽³⁾	9.0	67.4	42.7	65.8	23.1	-
Consolidated Fund balance	-27.2	30.6	21.6	46.5	24.9	-

⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.

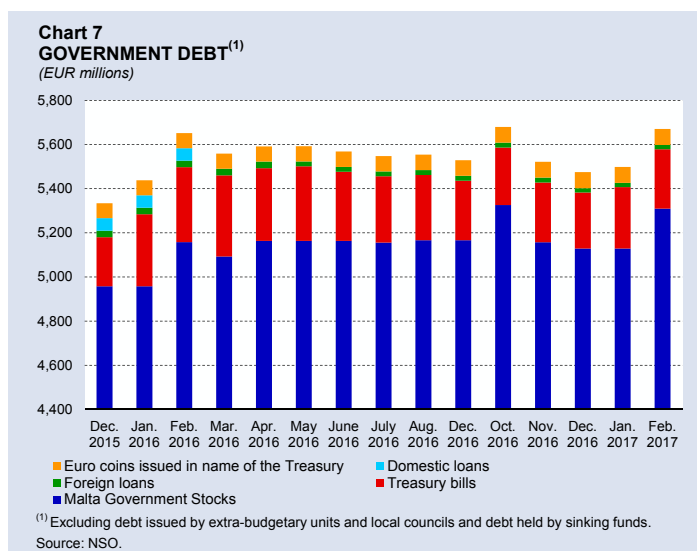
⁽²⁾ Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

⁽³⁾ Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

most of its sub-categories, though the decrease in contributions to government entities was the most pronounced.

At the end of 2016, the total stock of government debt amounted to €5,474.9 million, €195.1 million higher when compared with the end of 2015 (see Chart 7). The increase was mainly due to higher Malta Government Stocks and Treasury bills outstanding. The former made up 93.7% of total debt outstanding. The largest decline was recorded in domestic loans, as €56.4 million loans were repaid during 2016.



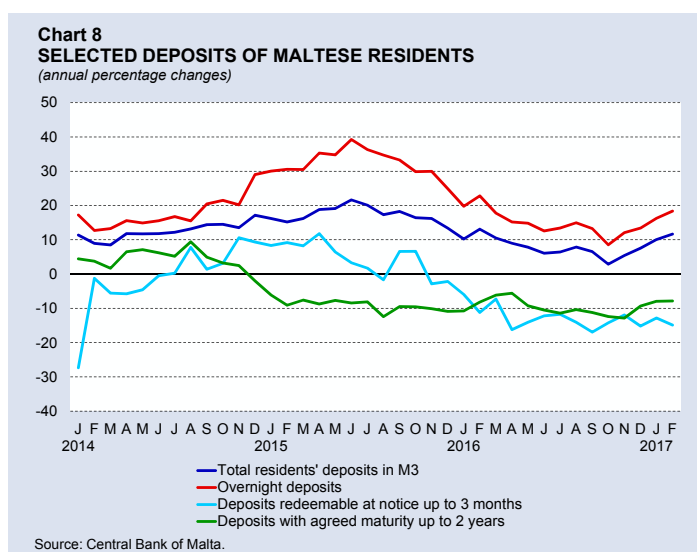
By February, the total stock of debt reached € 5,670.4 million (see Chart 7). This coincides with an issue of Malta Government Stocks amounting to €182.9 million during the month.

Deposits, credit and financial markets

The annual rate of growth of residents' deposits forming part of broad money (M3) rose to 11.7% in February, from 10.1% in January (see Chart 8). This represented the strongest growth rate since February 2016.

The acceleration in M3 deposits in February mainly reflected faster growth in overnight deposits. These rose by 18.4% on a year earlier, following a 16.3% increase in January. Time deposits continued to decline. In particular, deposits redeemable at a notice of up to two years declined by 7.9% whilst the smaller component, deposits redeemable at a notice of up to three months contracted by 14.9% on a year earlier. These developments illustrate a continued preference for holding liquid assets in an environment of low interest rates.

On the asset side of banks' balance sheets, annual growth in credit to Maltese residents accelerated to 2.4% in



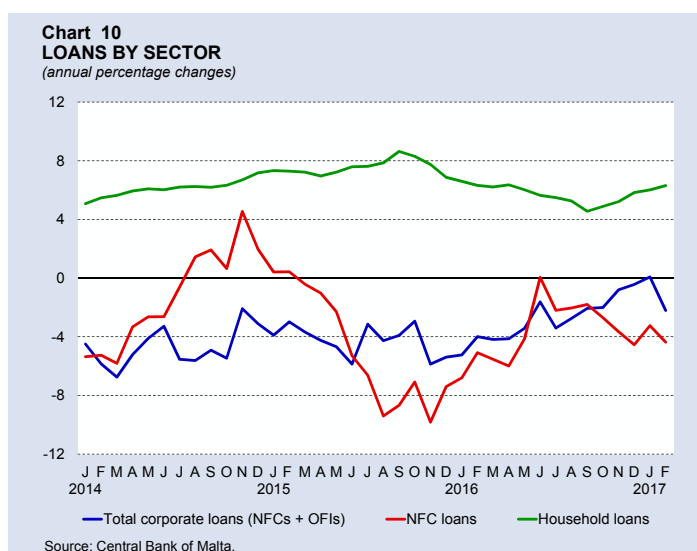
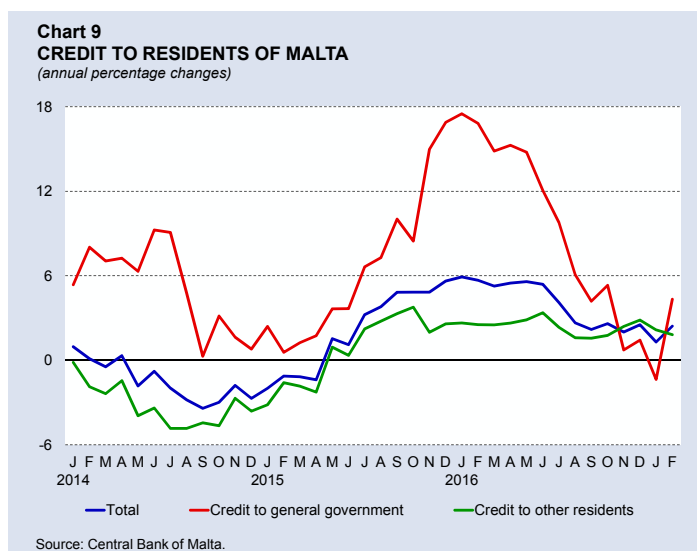
February, from 1.3% in January (see Chart 9). This acceleration was driven by developments in credit to general government. The latter grew by 4.3% in February following a contraction of 1.4% in January.

Contrastingly, the annual rate of change of credit to all other residents – which consists of credit to non-financial corporations (NFC), households and non-bank financial institutions (OFI) eased to 1.8%, from 2.2% in January. Year-on-year growth in February was mainly driven by increases in loans, which also expanded at an annual rate of 2.1%, following a 2.2% growth in January.

Loans to OFIs and households continued to expand. In particular, total loans to households grew by 6.3% in annual terms, following a 6.0% increase in January (see Chart 10). Loans for house purchases continued to grow at a robust pace, with the annual growth rate standing at 8.2% in February, up from 8.0% in January. In contrast, consumer credit and other lending to households continued to contract.

Loans to NFCs declined further. These went down by 4.4% in annual terms in February, following a 3.2% decrease a month earlier. This faster decline reflected a sharper contraction in loans to private NFCs, the bigger component. Year-on-year declines in loans to private NFCs were recorded across most sectors, save for energy and real estate as well as the sector comprising professional, scientific and technical activities.

Bank deposit rates remained stable in February. The composite interest rate paid by monetary financial institutions (MFI) on all euro-denominated deposits belonging to resident households and NFCs stood at 0.46% in February, down by 1 basis point from January. The composite deposit rate was 21 basis points below its level one year earlier. The comparable rate charged on



outstanding loans also edged down to 3.65% from 3.67% in the previous month. This implies a 13 basis point drop since February 2016.

In the secondary capital market, the yield on ten-year Maltese government bonds ended February at 1.18%, down from 1.36% at the end of the previous month (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Index lost 0.4% between February and March.

Chart 11
TEN-YEAR MALTA GOVERNMENT BOND YIELD⁽¹⁾
(ISMA yield; percentages per annum; end of month)



⁽¹⁾ As from January 2017, in the absence of bonds qualifying within the recommended residual maturity ranging between 9.5 and 10.5 years, the benchmark yield is calculated as an average of bonds close to the agreed maturity range.
 Source: Central Bank of Malta.

MACROECONOMIC INDICATORS FOR MALTA <i>(annual/percentage changes, non-seasonally adjusted data)</i>																											
	2015		2015		2015		2015		2015		2016		2016		2016		2017										
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Prices and costs	1.2	0.9	0.6	1.3	1.4	1.4	1.4	1.4	0.9	0.9	1.0	0.8	0.8	1.0	1.0	0.8	1.0	1.0	0.9	1.0	0.9	0.5	0.8	1.0	1.4	1.2	-
HICP inflation	1.1	0.6	0.7	1.4	1.2	1.1	1.1	1.1	0.5	0.6	0.8	0.7	0.7	0.5	0.3	0.5	0.4	0.7	0.8	0.7	0.8	0.8	0.4	0.7	1.1	1.7	1.6
RPI inflation	-2.2	-0.6	-1.3	-2.2	-2.2	-2.9	-1.5	0.1	0.0	0.0	-1.0	-	-2.0	-0.9	-1.6	1.3	-0.2	-0.8	-0.2	0.2	0.0	-0.2	-1.1	-1.9	-1.0	-0.4	
Industrial producer price inflation	-5.5	1.9	-6.7	-7.3	-4.4	-3.3	1.7	3.1	1.5	1.5	-	-	0.1	1.9	3.1	4.2	3.0	2.1	2.6	1.4	0.6	1.0	2.5	1.0	0.5	-0.7	
HCI (nominal)	-9.8	2.9	-12.4	-12.9	-7.7	-5.9	2.5	5.2	2.3	1.8	-	-	-0.6	2.9	5.3	7.2	5.2	3.4	4.3	2.1	0.5	0.7	3.8	0.9	0.2	-2.2	
HCI (real)	-0.2	1.0	-0.8	-0.8	-1.1	-0.2	0.0	0.6	1.5	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Unit labour costs, whole economy ⁽¹⁾	3.3	2.4	2.1	2.7	2.8	3.3	3.6	3.3	3.7	2.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Compensation per employee ⁽¹⁾	3.5	1.3	2.9	3.5	3.9	3.5	3.6	3.7	2.2	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour productivity (per person) ⁽¹⁾	5.8	9.2	2.6	3.5	7.9	7.5	9.3	11.5	5.2	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Property Price Index (NSO)																											
Economic activity	10.0	6.7	10.0	10.2	10.1	9.7	8.5	6.1	6.0	6.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nominal GDP	7.4	5.0	8.0	7.8	7.1	6.9	6.3	4.4	4.5	5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.2	3.8	4.0	3.7	7.0	5.9	6.7	3.5	1.3	3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.8	-3.1	4.0	5.3	-1.8	7.5	5.7	2.8	-4.3	-15.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	48.8	-1.3	12.1	73.0	77.6	36.5	18.3	-0.4	-18.9	2.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	4.1	4.0	1.1	5.0	4.1	6.1	5.1	-0.2	2.6	8.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	7.5	1.1	-1.0	10.5	12.9	7.8	7.3	-0.6	-5.1	3.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services																											
Labour market developments	5.4	4.7	5.7	5.4	5.2	5.2	4.9	4.9	4.8	4.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS unemployment rate (% of labour force)	2.3	2.9	1.7	1.8	2.8	3.0	2.6	3.5	2.3	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	4.9	-	4.9	5.2	5.2	4.5	4.0	4.5	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied																											
Balance of payments	5.3	7.9	10.9	9.0	5.5	5.3	4.1	3.7	6.6	7.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current account (as a % of GDP) ⁽²⁾																											
Credit and financial indicators																											
Maltese residents' deposits and loans	24.9	13.4	30.5	39.3	33.3	24.9	17.8	12.6	13.3	13.4	-	-	19.8	22.8	17.8	15.2	14.8	12.6	13.4	15.0	13.3	8.5	12.1	13.4	16.3	18.4	
Overnight deposits	-10.9	-9.3	-7.6	-8.4	-9.5	-10.9	-6.2	-10.5	-11.2	-9.3	-	-	-10.7	-8.2	-6.2	-5.6	-9.3	-10.5	-11.4	-10.4	-11.2	-12.4	-12.9	-9.3	-7.9	-7.9	
Deposits with agreed maturity up to 2 years	13.4	7.5	16.2	21.6	18.3	13.4	10.5	6.1	6.5	7.5	-	-	10.2	13.1	10.5	9.0	7.8	6.1	6.4	7.9	6.5	2.9	5.4	7.5	10.1	11.7	
Total residents' deposits in M3	16.9	1.4	1.2	3.7	10.0	16.9	14.9	12.1	4.2	1.4	-	-	17.5	16.8	14.9	15.3	14.8	12.1	9.8	6.1	4.2	5.3	0.7	1.4	-1.4	4.3	
Credit to general government	2.6	2.9	-1.8	0.4	3.3	2.6	2.5	3.4	1.6	2.9	-	-	2.6	2.5	2.5	2.6	2.9	3.4	2.3	1.6	1.6	1.8	2.4	2.9	2.2	1.8	
Credit to other residents	5.6	2.5	-1.2	1.1	4.8	5.6	5.3	5.4	2.2	2.5	-	-	5.9	5.7	5.3	5.5	5.6	5.4	4.1	2.7	2.2	2.6	2.0	2.5	1.3	2.4	
Total credit	1.4	0.7	1.2	2.0	1.5	1.4	0.9	0.9	0.6	0.7	-	-	1.1	1.1	0.9	1.1	1.0	0.9	0.7	0.6	0.6	0.6	0.9	0.7	1.4	1.2	
10-year interest rate (%) ⁽³⁾	33.0	4.5	13.4	8.3	5.9	2.2	3.0	0.0	-2.1	3.7	-	-	0.9	1.8	0.2	-0.4	-1.7	2.0	-2.0	-0.7	0.6	1.7	-1.6	3.6	1.8	0.4	
Stock prices: Malta Stock Exchange index ⁽⁴⁾																											
General government finances (% of GDP)																											
Surplus (+) / deficit (-) ⁽⁵⁾	-1.3	-	-2.2	-1.8	-1.6	-1.3	-0.2	0.4	0.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁵⁾	60.6	-	65.4	64.0	62.7	60.6	61.8	61.0	59.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

⁽¹⁾ Four-quarter moving averages.

⁽²⁾ Four-quarter moving sums.

⁽³⁾ End of period. As from January 2017, in the absence of bonds qualifying within the recommended residual maturity ranging between 9.5 and 10.5 years, the benchmark yield is calculated as an average of bonds close to the agreed maturity range.

⁽⁴⁾ Period-on-period percentage changes, based on end-of-month data.

⁽⁵⁾ GDP data are four-quarter moving sums.

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.